

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE B - INTER-FUND ACTIVITIES

INTER-FUND RECEIVABLES AND PAYABLES

Inter-fund receivables and payables do not represent inter-fund borrowings; instead, they represent actual amounts which are pending between funds at year-end due to the timing of cash flows. Generally, these amounts clear shortly after year-end when resources become available.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2005

NOTE B - INTER-FUND ACTIVITIES (CONTINUED)

INTER-FUND RECEIVABLES AND PAYABLES
(Continued)

The amounts of the inter-fund receivables and payables as of June 30, 2005 were as follows:

<u>Fund</u>	<u>Inter-fund Receivable</u>	<u>Inter-fund Payable</u>
General	\$ 5490	\$ 0
Trust and Agency	0	7
Local Street Fund	238	1170
Major Street Fund	0	3211
Water Fund	<u>0</u>	<u>1340</u>
Total	\$ <u>5728</u>	\$ <u>5728</u>

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE B - INTER-FUND ACTIVITIES (CONTINUED)

OPERATING TRANSFERS

Inter-fund transfers are the result of legally authorized transfers from a fund receiving revenue to the fund through which the resources are to be expended.

OTHER FINANCING SOURCES (USES)

The transfers of cash between the various City funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing funds.

NOTE C - CASH, DEPOSITS, AND INVESTMENTS

CASH RESERVES

The bonding ordinances for the 2000 and 2001 Water Supply System Junior Lien Revenue bonds require certain cash balances be reserved for bond repayment.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE C - CASH, DEPOSITS, AND INVESTMENTS

CASH RESERVES (Continued)

Junior Lien Bond and Interest Redemption Fund

Each quarter of the fiscal year, revenues must be transferred to the Bond and Interest Redemption Fund before any other expenditures or transfers. Sufficient amounts must be set aside to pay for the principal and interest payments accruing on the bonds.

As of June 20, 2005, the City is required to have \$ 0.00 in the Bond and Interest Redemption Fund. The actual balance on June 30, 2005 is \$ 12,846.

Junior Lien Bond Reserve Account

A reserve account for Bond and Interest Redemption is to be funded in the amount of \$ 441 per quarter, until there is accumulated the sum of \$ 17,640. No further deposits need be made thereafter.

Monies in the reserve account shall be used solely for payment of principal installments and interest on the bonds as to which there would otherwise be default.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE C - CASH, DEPOSITS, AND INVESTMENTS

CASH RESERVES (Continued)

Junior Lien Bond Reserve Account (Continued)

On June 30, 2005, the City is required to have \$ 7,683 on deposit in the Bond Reserve Account. The actual balance on June 30, 2005 is \$ 9,633.

Repair, Replacement, and Improvement Fund

The bonding ordinance requires the establishment of a Repair, Replacement, and Improvement Fund to be used for the purpose of paying the cost of (a) repairing any damage to and emergency maintenance of the System, (b) repairing or replacing obsolete, deteriorating, deteriorated or worn out portions of the System, (c) acquiring and constructing extensions and improvements to the System, and, when necessary, for the purpose of making payments of principal and interest on the Junior Lien Bonds.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2005

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

CASH RESERVES (Continued)

Repair, Replacement, and Improvement Fund
(Continued)

If the amount in the Bond and Interest Redemption Fund and the Bond Reserve Account is not sufficient to pay the principal and interest on the Bonds when due, the monies in the RRI Fund shall be transferred to the Bond and Interest Redemption Fund and used for that purpose.

Beginning October 1, 2000, the City is required to deposit into the RRI Fund an annual amount not less than \$875 less the amount, if any, deposited in the Bond Reserve Account at the beginning of the same Fiscal Year month. This amount was increased to \$ 991 beginning April 1, 2002.

On June 30, 2005, required deposits in the Repair, Replacement, and Improvement Fund are \$ 18,133. Actual deposits in the Repair, Replacement, and Improvement Fund are \$ 18,562.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

CASH AND DEPOSITS

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the local unit's cash deposits classifies cash according to three levels of risk.

These three levels of risk are as follows:

Category 1 Deposits which are insured or collateralized with securities held by the City or by its agent in the City's name.

Category 2 Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

CASH AND DEPOSITS (Continued)

Category 3 Deposits which are not
 collateralized or insured.

Based on these levels of risk, the City's cash deposits are
classified as follows:

	Category <u>1</u>	Category <u>2</u>	Category <u>3</u>	<u>Totals</u>
Cash and Deposits	\$ 207287	\$ -0-	\$ 5902	\$ 213189

INVESTMENTS

The City's investments are categorized below to give an
indication of the level of risk assumed at year-end.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

INVESTMENTS (Continued)

Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. **Category 2** includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's safekeeping department or agent in the City's name. **Category 3** includes uninsured and registered investments for which the securities are held by the broker or dealer, or by its safekeeping department or agent, but not in the City's name.

<u>Investment Type</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Carrying Value</u>	<u>Market Value</u>
None	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>-0-</u>
Total Investments	\$ <u><u>-0-</u></u>	\$ <u><u>-0-</u></u>	\$ <u><u>-0-</u></u>	\$ <u><u>-0-</u></u>	\$ <u><u>-0-</u></u>

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

STATUTORY AUTHORITY

Act 196, PA 1997, authorizes the City to deposit and invest in:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution eligible to be a depository of funds belonging to the State of Michigan under a law or rule of this state or the United States.
3. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

STATUTORY AUTHORITY (Continued)

4. Repurchase agreements consisting of instruments issued by the United States or an agency or instrumentality of the United States.
5. Bankers acceptance of United States banks.
6. Obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
7. Mutual funds registered under the Investment Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

STATUTORY AUTHORITY (Continued)

The City has adopted an investment policy, allowing for all types of deposits and investments listed above. The City's deposits and investments are in compliance with its investment policy.

PRIMARY GOVERNMENT

On June 30, 2005, the carrying value of the City's deposits (Primary Government) was \$ 213,190 and is comprised of cash and deposits reflected in the following funds:

Governmental Funds

General Fund	\$ 120241
Major Street Fund	3976
Local Street Fund	<u>1198</u>

<i>Total Governmental Funds</i>	\$ 125415
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(Continued on page 91)

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

PRIMARY GOVERNMENT (Continued)

(Continued from previous page)

Enterprise Funds

Water Fund	\$ 82117
Sewer Fund	<u>5650</u>
Total Enterprise Funds	\$ 87767

Fiduciary Funds

Tax Collection Fund	<u>7</u>
Total Fiduciary Funds	\$ 7

TOTAL PRIMARY GOVERNMENT	\$ 213189
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CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2005

NOTE D - PENSION PLAN

DESCRIPTION OF PLAN AND PLAN ASSETS

The City of Gaastra is an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS).

The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, non-duty-connected death and postretirement adjustments to plan members and their beneficiaries.

The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.25 percent times the final average compensation (FAC) with a maximum benefit of 80 percent of FAC. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2004.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2005

NOTE D - PENSION PLAN (CONTINUED)

DESCRIPTION OF PLAN AND PLAN ASSETS
(Continued)

MERS was organized pursuant to Section 12a of Act#156, Public Acts of 1851 (MSA 5.333(a); MCLA 46.12(a), as amended, State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission.

MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system.

That report may be obtained by writing to:

MERS
447 North Canal Street
Lansing, Michigan 48917-9755

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE D - PENSION PLAN (CONTINUED)

FUNDING POLICY

The obligation to contribute to and maintain the system for these employees was established by the City of Gaastra's personnel policy, which does not require employees to contribute to the plan. The City is required to contribute at an actuarially determined rate; the current rate was 8.97 percent at December 31, 2004.

During the fiscal year ended June 30, 2005, the City's contributions totaling \$ 5,237 were made in accordance with the contribution requirement determined by an actuarial valuation of the plan as of December 31, 2004. The employer contribution rate has been determined based on the entry age normal funding method.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2005

NOTE D - PENSION PLAN (CONTINUED)

ANNUAL PENSION COST (Continued)

Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years.

The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit.

Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on age-related scale to reflect merit, longevity, and promotional salary increases.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE D - PENSION PLAN (CONTINUED)

REQUIRED SUPPLEMENTARY INFORMATION FOR GASB STATEMENT NO. 25

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/02	\$ 44251	\$ 82730	\$ 38479	53%	\$ 54720	70%
12/31/03	54075	93172	39097	58%	56714	69%
12/31/04	63628	102747	39119	62%	59155	66%

GASB 25 AND GASB 27 INFORMATION

The following information has been prepared to provide the information necessary to comply with GASB Statements 25 and 27.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2005

NOTE D - PENSION PLAN (CONTINUED)

GASB 25 AND GASB 27 INFORMATION

Statement 25 is effective for fiscal years beginning after June 15, 1996 and Statement 27 is effective for fiscal years beginning after June 15, 1998.

All entries are based on the actuarial methods and assumptions that were used in the December 31, 2004 actuarial valuation to determine the annual employer contribution amounts. The entry age normal actuarial method was used to determine the entries at disclosure.

GASB 25 INFORMATION (as of 12/31/04)

<p><u>Actuarial Accrued Liability</u></p>

Retirees and beneficiaries currently receiving benefits	\$	-0-
Terminated employees not yet receiving benefits		-0-

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CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2005

NOTE D - PENSION PLAN (CONTINUED)

GASB 25 INFORMATION (as of 12/31/04)

(Continued from previous page)

Actuarial Accrued Liability

Current employees -	
Accumulated employee contributions including	\$
allocated investment income	-0-
Employer Financed	<u>102747</u>
Total Actuarial Accrued Liability	102747
Net Assets Available for Benefits at Actuarial Value	<u>63628</u>
(Market Value is \$ 62,109)	
Unfunded (Over-funded) Actuarial Accrued Liability	\$ 39119

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE D - PENSION PLAN (CONTINUED)

GASB 27 INFORMATION (as of 12/31/04)

Fiscal Year Beginning	July 01, 2006
Annual Required Contribution (ARC)	\$ 5196
Amortization Factor Used	0.053632

NOTE E - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

BUDGET VIOLATIONS

P.A. 621 of 1978, SECTION 18 (1), as amended, provides a local unit shall not incur expenditures in excess of the amounts appropriated. The City of Gaastra's actual expenditures and budgeted expenditures for the funds budgeted have been shown on an activity basis. The approved budgets of the City of Gaastra were adopted at the activity level.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

**NOTE E - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS
(CONTINUED)**

BUDGET VIOLATIONS (Continued)

The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

The total actual 2004-2005 expenditures for the following activities (cost centers) exceeded the amended budget allocations by a total of \$ 3,089, contrary to the provisions of Section 17 of Public Act 621 of 1978, the "Uniform Budgeting and Accounting Act".

<u>ACTIVITY (COST CENTER)</u>	<u>ACTUAL</u>	<u>BUDGET</u>	<u>OVER EXPENDITURES</u>
<u>General Fund</u>			
City Manager	\$ 26598	\$ 25059	\$ 1539
<u>Major Street Fund</u>			
Routine Maintenance	28341	27691	650
<u>Local Street Fund</u>			
Routine Maintenance	6845	5945	900

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE F - ACCUMULATED FUND DEFICITS

At June 30, 2005, the City had no fund balance/retained earnings deficit in any fund.

NOTE G - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City.

NOTE H - CAPITAL ASSETS

The following is a summary of the changes in capital assets for the fiscal year ended June 30, 2005:

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE H - CAPITAL ASSETS (CONTINUED)

GOVERNMENTAL ACTIVITIES

	Restated Balance June 30, 2004	Increases	Decreases	Balance June 30, 2005
Capital Assets Not Being Depreciated	\$	\$	\$	\$
Land and Land Improvements	30000	0	0	30000
Total Capital Assets Not Being Depreciated	\$ 30000	\$ 0	\$ 0	\$ 30000
<u>Other Capital Assets</u>				
Land Improvements	1718	0	0	1718
Buildings	222826	2400	0	225226
Infrastructure	220282	0	0	220282
Furniture & Other Equip.	123353	9080	0	132433
Total Other Cap. Assets	\$ 568179	\$ 11480	\$ 0	\$ 579659
<u>Less Accumulated Depreciation for:</u>				
Land Improvements	(387)	(86)	0	(473)
Buildings	(196670)	(2480)	0	(199150)
Infrastructure	(220282)	0	0	(220282)
Furniture & Other Equip.	(100227)	(9634)	0	(109861)
Total Accum. Depreciation	(517566)	(12200)	0	(529766)
Other Capital Assets, Net	50613	(720)	0	49893
TOTALS	\$ <u>80613</u>	\$ <u>(720)</u>	\$ <u>0</u>	\$ <u>79893</u>

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE H - CAPITAL ASSETS (CONTINUED)

GOVERNMENTAL ACTIVITIES (Continued)

Depreciation was charged to governmental functions as unallocated.

BUSINESS-TYPE ACTIVITIES

The following is a summary of changes in capital assets for business-type activities for the fiscal year ended June 30, 2005:

	Restated Balance June 30, 2004			Increases	Decreases	Balance June 30, 2005
<u>BUSINESS-TYPE ACTIVITIES</u>						
<u>Capital Assets Not Being Depreciated:</u>						
Land, Easements and Right-of-Way	\$	0	\$	0	\$	0
<u>Other Capital Assets:</u>						
Land and Improvements		0		0		0
Buildings		44163		0		44163
Infrastructure		1390662		0		1390662
Machinery and Equipment		330034		0		330034
Total Capital Assets	\$	1764859	\$	0	\$	1764859

(Continued on page 104)

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE H - CAPITAL ASSETS (CONTINUED)

BUSINESS-TYPE ACTIVITIES (Continued)

(Continued from previous page)

	Restated Balance June 30, <u>2004</u>	<u>Increases</u>	<u>Decreases</u>	Balance June 30, <u>2005</u>
Less Accumulated Depreciation for:				
Land Improvements	\$ 0	\$ 0	\$ 0	\$ 0
Buildings	(44163)	0	0	(44163)
Infrastructure	(108066)	(22210)	0	(130276)
Machinery and Equipment	(329746)	(289)	0	(330035)
 Total Accumulated Depreciation	 <u>(481975)</u>	 <u>(22499)</u>	 <u>0</u>	 <u>(504474)</u>
 TOTALS	 \$ <u>1282884</u>	 \$ <u>(22499)</u>	 \$ <u>0</u>	 \$ <u>1260385</u>

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE I - LONG-TERM DEBT

The following is a summary of changes of the primary government's long-term debt obligation on June 30, 2005:

	<u>June 30,</u> <u>2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30,</u> <u>2005</u>
<u>Water Fund</u>	\$	\$	\$	\$
Water Supply System Improvement Bonds	183000	-0-	7000	176000
Junior Lien Revenue Bond # 91-01	265000	-0-	4000	261000
Junior Lien Revenue Bond # 91-03	<u>82000</u>	<u>-0-</u>	<u>1000</u>	<u>81000</u>
Totals	\$ <u>530000</u>	\$ <u>-0-</u>	\$ <u>12000</u>	\$ <u>518000</u>

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2005

NOTE I - LONG-TERM DEBT (CONTINUED)

WATER SUPPLY SYSTEM REVENUE BONDS (GMAC)

The City issued revenue bonds for Water Supply System Improvement on May 20, 1982, bearing an interest rate not to exceed 5% per annum. Interest is payable on January 01 and July 01 of each year. The bonds mature serially on July 01 of each year in the following manner:

<u>For Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 8000	\$ 8800	\$ 16800
2007	8000	8400	16400
2008	8000	8000	16000
2009	9000	7600	16600
2010	9000	7150	16150
2011-2015	50000	28700	78700
2016-2020	58000	15350	73350
2021 - 2023	<u>26000</u>	<u>1950</u>	<u>27950</u>
Totals	\$ <u>176000</u>	\$ <u>85950</u>	\$ <u>261950</u>

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE I - LONG-TERM DEBT (CONTINUED)

**2000 WATER SUPPLY SYSTEM JUNIOR LIEN
REVENUE BOND**

On November 28, 2000, the **City of Gaastra** issued a bond consisting of one fully-registered nonconvertible bond of the denomination of \$ 278,000, payable in principal installments serially on July 01 of each year.

Bond proceeds are to be used for the purpose of acquiring and constructing certain additions, renovations, expansions and improvements to the system consisting generally of improvements to the water supply system, together with all necessary interests in land, rights of way and all appurtenances and attachments thereto.

The serial principal installments of the Junior Lien Bonds will each bear interest from the date of delivery of the corresponding delivery installment to the registered holder thereof at the rate of not to exceed three and one-quarter percent (3.25%) per annum, payable on the first January 01 or July 01 following the date of delivery of said delivery installment, and semi-annually thereafter on January 01 and July 01 of each year until maturity or earlier payment of said installment.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE I - LONG-TERM DEBT (CONTINUED)

**2000 WATER SUPPLY SYSTEM JUNIOR LIEN
REVENUE BOND (Continued)**

Scheduled payments of principal and interest are as follows:

<u>FOR YEAR ENDING</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2006	\$ 4000	\$ 8482	\$ 12482
2007	4000	8353	12353
2008	4000	8222	12222
2009	4000	8093	12093
2010	4000	7962	11962
2011-2015	24000	37667	61667
2016-2020	28000	33540	61540
2021-2025	34000	28665	62665
2026-2030	41000	22588	63588
2031-2035	47000	15567	62567
2036-2040	55000	7443	62443
2041	12000	390	12390
Totals	\$ <u>261000</u>	\$ <u>186972</u>	\$ <u>447972</u>

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE I - LONG-TERM DEBT (CONTINUED)

**2001 WATER SUPPLY SYSTEM JUNIOR LIEN
REVENUE BOND**

On July 24, 2001, the City of Gaastra issued a bond consisting of one fully-registered, non-convertible bond in the total aggregate principal sum of \$ 85,000, issued pursuant to Ordinance No. 31, as amended, Ordinance No. 44, and Ordinance 45 (together, the "Ordinances"), and under and in full compliance with the Constitution and statutes of the State of Michigan, including specifically Act 94, Public Acts of Michigan, 1933, as amended, for the purpose of acquiring and constructing certain additions, renovations, expansions, and improvements to the system consisting generally of improvements to the water supply system, together with all necessary interests in land, rights of way, and all appurtenances and attachments thereto.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE I - LONG-TERM DEBT (CONTINUED)

**2001 WATER SUPPLY SYSTEM JUNIOR LIEN
REVENUE BOND (Continued)**

The serial principal installments of the Junior Lien Bonds will each bear interest from the date of delivery of the corresponding delivery installment to the registered holder thereof at the rate of not to exceed four and one-half percent (4.50%) per annum, payable beginning on January 01, 2002, and semiannually thereafter on January 01, and July 01 of each year until maturity or earlier prepayment of said installment.

Scheduled payments of principal and interest are as follows:

<u>FOR YEAR ENDING</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2006	\$ 1000	\$ 3686	\$ 4686
2007	1000	3641	4641

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CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE I - LONG-TERM DEBT (CONTINUED)

**2001 WATER SUPPLY SYSTEM JUNIOR LIEN
REVENUE BOND (Continued)**

(Continued from previous page)

<u>FOR YEAR ENDING</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2008	\$ 1000	\$ 3595	\$ 4595
2009	1000	3549	4549
2010	1000	3504	4504
2011-2015	6500	16769	23269
2016-2020	8000	15131	23131
2021-2025	10000	13083	23083
2026-2030	13000	10580	23580
2031-2035	16000	7372	23372
2036-2040	20000	3390	23390
2041	2500	114	2614
Totals	\$ <u>81000</u>	\$ <u>84414</u>	\$ <u>165414</u>

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE J - SEGMENT INFORMATION - Enterprise Funds

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Enterprise Funds</u>
Operating Revenues	\$ 63360	\$ 44411	\$ 107771
Depreciation and Amortization Expense	19021	3478	22499
Operating Income (Loss)	19014	(1504)	17510
Operating Grants, Entitlements, and shared Revenues	0	0	0
Operating Transfers:			
In	0	0	0
(Out)	0	0	0
Tax Revenues	0	0	0
Net Income or Loss	(1843)	(1496)	(3339)
Current Capital:			
Contributions	0	0	0
Transfers	\$ 0	\$ 0	\$ 0

(Continued on page 113)

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE J - SEGMENT INFORMATION - Enterprise Funds

(Continued from previous page)

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Enterprise Funds</u>
Property, Plant, and Equipment	\$	\$	\$
Additions	0	0	0
Deletions	0	0	0
Net Working Capital	41092	7316	48408
Total Assets	1226000	125174	1351174
Bonds and Other Long-Term			
Liabilities			
Payable from Operating Revenues	518000	0	518000
Payable from Other Sources	0	0	0
Total Equity	\$ 706660	\$ 125174	\$ 831834

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2005

NOTE K - RELATED PARTY TRANSACTIONS

Related parties exist when there is a relationship that offers the potential for transactions at less than arm's length, favorable treatment, or the ability to influence the outcome of events differently from that which might result in the absence of that relationship.

Financial statements must include disclosure of material related party transactions, other than compensation arrangements, expense allowances and similar items in the ordinary course of business. However, disclosure of transactions that are eliminated in the preparation of combined financial statements is not required in those statements.

On this basis, there were no related party transactions reported in the financial statements.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE L - SUBSEQUENT EVENTS

Subsequent events have a material effect on the financial statements which requires adjustment or disclosure. They relate to events that provide additional evidence with respect to conditions that existed at the date of the balance sheet and events that provide evidence with respect to conditions that did not exist at the date of the balance sheet but arose subsequent to that date.

At fiscal year ended June 30, 2005, there were no subsequent events that would have a significant affect on the City's operations.

NOTE M - COMMITMENTS AND CONTINGENCIES

The City participates in state and federal grant programs which are governed by various rules and regulations of the grantor agencies.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE M - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of money received may be required and the collectibility of any related receivable at June 30, 2005 may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF GAASTRA

**REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**

YEAR ENDED JUNE 30, 2005

	<u>ORIGINAL BUDGET</u>	<u>FINAL AMENDED BUDGET</u>	<u>ACTUAL</u>
<u>REVENUE</u>			
General Property Taxes	\$ 52,362	\$ 54,797	\$ 52,361
Other Local Taxes	-	-	-
Penalties and Interest on Taxes	3,273	544	744
Use of Money and Property	41,606	61,343	63,409
Charges for Services	9,050	8,312	8,312
Miscellaneous	600	1,107	1,867
Recovered Costs	-	-	-
Intergovernmental	55,206	51,761	50,948
Sale of Land	-	75,071	74,821
TOTAL REVENUE	162,097	252,935	252,462
<u>EXPENDITURES</u>			
General Government	99,676	114,108	110,206
Legislative	8,011	13,838	13,838
Public Safety	13,204	31,200	30,889
Public Works	31,116	47,557	46,697
Sanitation and Health	8,040	7,740	7,540
Culture and Recreation	2,050	7,550	7,162
TOTAL EXPENDITURES	162,097	221,993	216,332
<u>OTHER FINANCING SOURCES (USES)</u>			
Operating Transfers In	-	-	-
Operating Transfers Out	-	-	-
Transfers to Component Units	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-
NET CHANGE IN FUND BALANCE	-	30,942	36,130
FUND BALANCE - BEGINNING OF YEAR	97,438	97,438	97,438
FUND BALANCE - END OF YEAR	\$ 97,438	\$ 128,380	\$ 133,568

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

**REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE - MAJOR STREET FUND**

YEAR ENDED JUNE 30, 2005

	<u>ORIGINAL BUDGET</u>	<u>FINAL AMENDED BUDGET</u>	<u>ACTUAL</u>
<u>REVENUE</u>			
State Transportation Funds	\$ 50,240	\$ 50,401	\$ 49,473
Other Revenue	-	-	-
TOTAL REVENUE	50,240	50,401	49,473
<u>EXPENDITURES</u>			
Administration	1,530	1,511	1,511
Routine Maintenance	34,676	27,691	28,340
Winter Maintenance	14,034	21,763	21,763
Capital Outlay	-	-	-
TOTAL EXPENDITURES	50,240	50,965	51,614
<u>OTHER FINANCING SOURCES (USES)</u>			
Operating Transfers In	-	-	-
Operating Transfers Out	-	-	-
Transfers to Component Units	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-
NET CHANGE IN FUND BALANCE	-	(564)	(2,141)
FUND BALANCE - BEGINNING OF YEAR	9,973	9,973	9,973
FUND BALANCE - END OF YEAR	\$ 9,973	\$ 9,409	\$ 7,832

The notes to the financial statements are an integral part of this report.

OTHER SUPPLEMENTAL INFORMATION

CITY OF GAASTRA

**OTHER SUPPLEMENTAL INFORMATION
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS**

JUNE 30, 2005

	<u>Special Revenue</u>
	<u>Local Street Fund</u>
<u>ASSETS</u>	
Cash and Investments (Note C)	
Receivables	\$ 1,198
Accounts Receivable - State	2,124
Due from Other Funds	238
TOTAL ASSETS	<u>\$ 3,560</u>
<u>LIABILITIES AND FUND BALANCES</u>	
<u>LIABILITIES</u>	
Accounts Payable	672
Due to Other Funds	1,170
TOTAL LIABILITIES	1,842
<u>FUND BALANCE</u>	
Reserved for Local Streets	1,718
TOTAL FUND BALANCE	1,718
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 3,560</u>

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

**OTHER SUPPLEMENTAL INFORMATION
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS**

YEAR ENDED JUNE 30, 2005

	<u>Special Revenue</u> <u>Local Street</u> <u>Fund</u>
<u>REVENUE</u>	
Use of money and property	\$ -
Miscellaneous local revenue	-
Intergovernmental	13,124
TOTAL REVENUE	<u>\$ 13,124</u>
<u>EXPENDITURES</u>	
Current:	
Highways and streets	14,346
Capital Outlay	-
Intergovernmental Payments	-
TOTAL EXPENDITURES	<u>14,346</u>
Excess (Deficiency) of Revenues Over Expenditures	(1,222)
<u>Other Financing Sources (Uses)</u>	
Operating transfers in	-
Operating transfers out	-
Total Other Financing Sources (Uses)	<u>-</u>
Net Change in Fund Balances	(1,222)
FUND BALANCE - BEGINNING OF YEAR	<u>2,940</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 1,718</u></u>

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

**COMBINING BALANCE SHEET
ALL SPECIAL REVENUE FUNDS**

JUNE 30, 2005

	<u>MAJOR STREET FUND</u>	<u>LOCAL STREET FUND</u>	<u>TOTAL</u>
<u>ASSETS</u>			
Cash and Deposits, Unrestricted	\$ 3,976	\$ 1,198	\$ 5,174
Accounts Receivable, State	7,739	2,124	9,863
Due from Other Funds	-	238	238
TOTAL ASSETS	<u>\$ 11,715</u>	<u>\$ 3,560</u>	<u>\$ 15,275</u>
<u>LIABILITIES AND FUND EQUITY</u>			
<u>LIABILITIES</u>			
Accounts Payable	672	672	1,344
Due to Other Funds	3,211	1,170	4,381
TOTAL LIABILITIES	3,883	1,842	5,725
<u>FUND EQUITY</u>			
Fund Balance, Reserved	7,832	1,718	9,550
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 11,715</u>	<u>\$ 3,560</u>	<u>\$ 15,275</u>

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL SPECIAL REVENUE FUNDS**

FISCAL YEAR ENDED JUNE 30, 2005

	<u>MAJOR STREET FUND</u>	<u>LOCAL STREET FUND</u>	<u>TOTAL</u>
<u>REVENUES</u>			
<u>STATE REVENUE</u>			
State Transportation Funds	\$ 49,473	\$ 13,124	\$ 62,597
TOTAL REVENUES	49,473	13,124	62,597
<u>EXPENDITURES</u>			
Administration	1,511	805	2,316
Routine Maintenance	28,340	6,845	35,185
Winter Maintenance	21,763	6,696	28,459
Capital Outlay	-	-	-
TOTAL EXPENDITURES	51,614	14,346	65,960
Excess of Revenues Over (Under) Expenditures	(2,141)	(1,222)	(3,363)
<u>OTHER FINANCING SOURCES (USES)</u>			
Operating Transfers In (Out)	-	-	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(2,141)	(1,222)	(3,363)
FUND BALANCE, JULY 1	9,973	2,940	12,913
FUND BALANCE, JUNE 30	\$ 7,832	\$ 1,718	\$ 9,550

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

COMBINING BALANCE SHEET - ALL ENTERPRISE FUNDS

JUNE 30, 2005

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Totals</u>
<u>ASSETS</u>			
<i>Current Assets</i>			
Cash, unrestricted	\$ 41,076	\$ 5,650	\$ 46,726
Accounts Receivable	1,356	1,666	3,022
Due from other funds	-	-	-
Total Current Assets	42,432	7,316	49,748
<i>Noncurrent Assets</i>			
Restricted cash	41,041	-	41,041
Capital assets:			
Buildings	44,163	-	44,163
Equipment	330,034	-	330,034
Infrastructure	1,217,553	173,109	1,390,662
Less:	(449,223)	(55,251)	(504,474)
Allowance for depreciation			-
Total capital assets, net	1,142,527	117,858	1,260,385
Total Noncurrent Assets	1,183,568	117,858	1,301,426
TOTAL ASSETS	\$ 1,226,000	\$ 125,174	\$ 1,351,174
<u>LIABILITIES</u>			
<i>Current Liabilities</i>			
Accounts payable	-	-	-
Due to other funds	1,340	-	1,340
Current portion of long-term debt	13,000	-	13,000
Deferred revenues	-	-	-
Total Current Liabilities	14,340	-	14,340
<i>Non-current Liabilities</i>			
Revenue bonds payable	505,000	-	505,000
Total Non-current Liabilities	505,000	-	505,000
TOTAL LIABILITIES	\$ 519,340	\$ -	\$ 519,340
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	624,527	117,858	742,385
Reserved	82,133	7,316	89,449
Unreserved, undesignated	-	-	-
TOTAL NET ASSETS	\$ 706,660	\$ 125,174	\$ 831,834

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
ALL ENTERPRISE FUNDS**

YEAR ENDED JUNE 30, 2005

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Enterprise Funds</u>
<u>OPERATING REVENUES</u>			
Charges for Services	\$ 61,043	\$ 44,361	\$ 105,404
Miscellaneous	2,317	50	2,367
TOTAL OPERATING REVENUES	\$ 63,360	\$ 44,411	\$ 107,771
<u>OPERATING EXPENSES</u>			
Personal Services and Benefits	824	701	1,525
Contractual Services	2,330	31,039	33,369
Repairs and Maintenance	-	-	-
Other Supplies and Expenses	22,171	10,697	32,868
Depreciation	19,021	3,478	22,499
TOTAL OPERATING EXPENSES	\$ 44,346	\$ 45,915	\$ 90,261
OPERATING INCOME (LOSS)	19,014	(1,504)	17,510
<u>Non-Operating Revenues (Expenses)</u>			
Interest and Investment Revenue	596	8	604
Interest Expense	(21,453)	-	(21,453)
Total Non-Operating Revenues (Expenses)	(20,857)	8	(20,849)
Change in Net Assets	(1,843)	(1,496)	(3,339)
NET ASSETS - BEGINNING OF YEAR	708,503	126,670	835,173
NET ASSETS - END OF YEAR	<u>\$ 706,660</u>	<u>\$ 125,174</u>	<u>\$ 831,834</u>

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

COMBINING STATEMENT OF CASH FLOWS - ALL ENTERPRISE FUNDS

FISCAL YEAR ENDED JUNE 30, 2005

CASH FLOWS FROM (USED BY)	<u>WATER FUND</u>	<u>SEWER FUND</u>	<u>TOTAL</u>
<u>OPERATING ACTIVITIES</u>			
Net cash received from fees and services	\$ 61,095	\$ 44,196	\$ 105,291
Other operating revenues	2,317	50	2,367
Cash payments to employees for services	(824)	(701)	(1,525)
Cash payments for goods and services	(24,501)	(41,736)	(66,237)
Other operating expenses	-	-	-
NET CASH FROM OPERATING ACTIVITIES	38,087	1,809	39,896
<u>NON CAPITAL AND FINANCING ACTIVITIES</u>			
Increase (decrease) in due to other funds	-	-	-
(Increase) decrease in due from other funds	-	-	-
Net operating transfers in (out)	-	-	-
NET CASH FROM NON CAPITAL AND FINANCING ACTIVITIES	-	-	-
<u>CAPITAL AND RELATED FINANCING ACTIVITIES</u>			
Acquisition and construction of capital assets	-	-	-
Principal payment on long-term bonds	(12,000)	-	(12,000)
Interest paid on long-term bonds	(21,453)	-	(21,453)
Interest and tax expense	-	-	-
Proceeds from borrowings	-	-	-
Contributed capital grants	-	-	-
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(33,453)	-	(33,453)
<u>INVESTING ACTIVITIES</u>			
Interest Income	596	8	604
NET CASH FROM INVESTING ACTIVITIES	596	8	604
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,230	1,817	7,047
Cash and Cash Equivalents, Beginning of Year	76,887	3,833	80,720
Cash and Cash Equivalents, End of Year	\$ 82,117	\$ 5,650	\$ 87,767

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

**COMBINING STATEMENT OF CASH FLOWS - ALL ENTERPRISE FUNDS
(CONTINUED)**

FISCAL YEAR ENDED JUNE 30, 2005

	<u>WATER FUND</u>	<u>SEWER FUND</u>	<u>TOTAL</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>			
Operating Income (Loss)	\$ 19,014	\$ (1,504)	17,510
Adjustment to reconcile operating income to net cash provided by operating activities:			
. Depreciation	19,021	3,478	22,499
. Provision for uncollectible accounts	-	-	-
. Changes in assets and liabilities :			
(Increase) Decrease in accounts receivable	52	(165)	(113)
Increase (Decrease) in accounts payable	-	-	-
Increase (Decrease) in deferred revenue	-	-	-
Increase (Decrease) in customer deposits	-	-	-
NET CASH FROM OPERATING ACTIVITIES	<u>\$ 38,087</u>	<u>\$ 1,809</u>	<u>\$ 39,896</u>

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

COMPARATIVE BALANCE SHEET - GENERAL FUND

JUNE 30, 2005

	<u>2005</u>	<u>2004</u>
<u>ASSETS</u>		
Cash and Deposits, Unrestricted	\$ 120,241	\$ 80,539
Accounts Receivable, State	5,976	6,279
Taxes Receivable	5,618	7,830
Due from Other Funds	5,490	3,460
TOTAL ASSETS	<u>\$137,325</u>	<u>\$ 98,108</u>
<u>LIABILITIES AND FUND EQUITY</u>		
<u>LIABILITIES</u>		
Accounts Payable	3,622	670
Accrued Benefits	135	-
TOTAL LIABILITIES	<u>3,757</u>	<u>670</u>
<u>FUND EQUITY</u>		
Fund Balance, Unreserved	133,568	97,438
TOTAL LIABILITIES AND FUND EQUITY	<u>\$137,325</u>	<u>\$ 98,108</u>

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

**STATEMENT OF REVENUES - ACTUAL AND BUDGET
GENERAL FUND**

FISCAL YEAR ENDED JUNE 30, 2005
(With Comparative Totals for Fiscal Year Ended June 30, 2004)

	FISCAL YEAR ENDED JUNE 30, 2005			FISCAL YEAR ENDED 6/30/04
	ACTUAL	BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)	
<u>LOCAL REVENUE</u>				
Property Taxes				
Current Levy	\$ 52,361			\$ 49,508
Interest, Penalties and Collection Fees	744			1,493
Other Taxes	-			-
Total Property Taxes	53,105	55,341	(2,236)	51,001
Rental Income				
Equipment Rental	61,983			67,046
Total Rental Income	61,983	59,929	2,054	67,046
Other Sources				
Interest Income	1,426			1,245
Sale of Garbage Bags	8,312			9,041
Sale of Land	74,821			-
Donations	250			-
Miscellaneous	1,617			1,557
Total Other Sources	86,426	85,904	522	11,843
TOTAL LOCAL REVENUE	201,514	201,174	340	129,890
<u>STATE SHARED REVENUE</u>				
Sales Tax Distribution	50,948			53,141
Annual Maintenance	-			-
Metro Act	-			2,773
TOTAL STATE SHARED REVENUE	50,948	51,761	(813)	55,914
TOTAL REVENUE	\$252,462	\$252,935	\$ (473)	\$185,804

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

STATEMENT OF EXPENDITURES - ACTUAL AND BUDGET GENERAL FUND

FISCAL YEAR ENDED JUNE 30, 2005

(With Comparative Totals for Fiscal Year ended June 30, 2004)

	<u>FISCAL YEAR ENDED JUNE 30, 2005</u>			<u>FISCAL</u>
			<u>VARIANCE</u>	<u>YEAR</u>
	<u>ACTUAL</u>	<u>BUDGET</u>	<u>FAVORABLE</u>	<u>ENDED</u>
			<u>(UNFAVORABLE)</u>	<u>6/30/04</u>
<u>LEGISLATIVE</u>				
Commissioner Fees	\$ 3,491	\$ -	\$ -	\$ 2,220
Legal Fees	8,122			4,031
Accounting / Audit	1,592			596
Printing and Publishing	122			435
Miscellaneous	511			-
TOTAL LEGISLATIVE	\$ 13,838	\$ 13,838	\$ -	\$ 7,282
<u>GENERAL GOVERNMENT</u>				
City Manager				
Salary	13,593	-	-	21,130
Fringe Benefits	5,064			1,616
Fees	255			345
Insurance	7,655			14,194
Miscellaneous	20			62
Supplies	11			-
Travel and Training	-			55
Total City Manager	26,598	25,059	(1,539)	37,402
City Clerk / Treasurer				
Salary	28,775	-	-	28,244
Fringe Benefits	6,087			2,161
Contract Services	1,217			698
Fees	305			385
Insurance	8,592			8,016
Other	5			-
Supplies	695			144
Total City Clerk / Treasurer	45,676	46,717	1,041	39,648
Cemetery				
Stambaugh Cemetery Association	2,712	-	-	2,712
Total Cemetery	\$ 2,712	\$ 2,712	\$ -	\$ 2,712

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

**STATEMENT OF EXPENDITURES - ACTUAL AND BUDGET
(CONTINUED)
GENERAL FUND**

FISCAL YEAR ENDED JUNE 30, 2005
(With Comparative Totals for Fiscal Year Ended June 30, 2004)

	<u>FISCAL YEAR ENDED JUNE 30, 2005</u>			<u>FISCAL</u>
			<u>VARIANCE</u>	<u>YEAR</u>
	<u>ACTUAL</u>	<u>BUDGET</u>	<u>FAVORABLE</u>	<u>ENDED</u>
			<u>(UNFAVORABLE)</u>	<u>6/30/04</u>
<u>GENERAL GOVERNMENT (continued)</u>				
City Property				
Salary	\$ 1,341	\$ -	\$ -	\$ 2,313
Fringe Benefits	103			177
Contract Services	1,682			1,921
Supplies and Other	3,063			1,696
Utilities	14,136			13,751
Total City Property	20,325	20,597	272	19,858
Assessor / Equalization				
Personal Services	2,019	-	-	2,049
Supplies	99			123
Total Assessor	2,118	2,252	134	2,172
Elections				
Printing and Publishing	-	-	-	90
Supplies	445			131
Fees	870			918
Other	89			-
Total Elections	1,404	1,658	254	1,139
Board of Review				
Fees	155	-	-	180
Printing and Publishing	70			148
Total Board of Review	225	350	125	328
Zoning Board	100	100	-	64
TOTAL GENERAL GOVERNMENT	\$ 99,158	\$ 99,445	\$ 287	\$ 103,323
PUBLIC SAFETY - FIRE				
Caspian - Gaastra Fire Authority Assessment	30,889	-	-	14,880
TOTAL PUBLIC SAFETY	\$ 30,889	\$ 31,200	\$ 311	\$ 14,880

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

**STATEMENT OF EXPENDITURES - ACTUAL AND BUDGET
(CONTINUED)
GENERAL FUND**

FISCAL YEAR ENDED JUNE 30, 2005
(With Comparative Totals for Fiscal Year Ended June 30, 2004)

	FISCAL YEAR ENDED JUNE 30, 2005			FISCAL YEAR ENDED 6/30/04
	ACTUAL	BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)	
PUBLIC WORKS				
Salary	\$ 15,132	\$ -	\$ -	\$ 14,509
Fringe Benefits	1,158			1,110
Contract Services	160			310
Equipment Rental	508			-
Fees	-			-
Fuel, Grease and Oil	4,901			3,456
Insurance	-			3,483
Other Costs	-			176
Repairs and Maintenance	1,164			2,204
Supplies	5,504			3,456
Utilities	2,195			1,399
TOTAL PUBLIC WORKS	\$ 30,722	\$ 31,582	\$ 860	\$ 30,103
PARKS AND RECREATION				
Salary	846			1,472
Fringe Benefits	65			113
Fees	5,500			-
Supplies	751			122
TOTAL PARKS AND RECREATION	\$ 7,162	\$ 7,550	\$ 388	\$ 1,707
SANITATION				
Collection Fees	7,390	-	-	7,864
Tipping Fees	-			421
Recycling Fees	150			367
Supplies	-			1,440
TOTAL SANITATION	\$ 7,540	\$ 7,740	\$ 200	\$ 10,092
STREET LIGHTING	4,495	4,495	-	4,986
CAPITAL OUTLAY	11,480	11,480	-	-
OTHER				
Dues, Memberships, and Contributions	-	-	-	6,892
Insurance	2,657			2,245
New Construction Power Reimbursement	7,711			-
Other	680			2,286
TOTAL OTHER	11,048	14,663	3,615	11,423
TOTAL EXPENDITURES	\$216,332	\$221,993	\$ 5,661	\$ 183,796

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

**COMPARATIVE BALANCE SHEET
MAJOR STREET FUND**

JUNE 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<u>ASSETS</u>		
Cash and Deposits, Unrestricted	\$ 3,976	\$ 4,539
Accounts Receivable, State	<u>7,739</u>	<u>8,666</u>
TOTAL ASSETS	<u>\$ 11,715</u>	<u>\$ 13,205</u>
<u>LIABILITIES AND FUND EQUITY</u>		
<u>LIABILITIES</u>		
Accounts Payable	672	924
Due to Other Funds	<u>3,211</u>	<u>2,308</u>
TOTAL LIABILITIES	3,883	3,232
<u>FUND EQUITY</u>		
Fund Balance, Reserved	<u>7,832</u>	<u>9,973</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 11,715</u>	<u>\$ 13,205</u>

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND EQUITY
ACTUAL AND BUDGET - MAJOR STREET FUND**

FISCAL YEAR ENDED JUNE 30, 2005
(With Comparative Totals for Fiscal Year Ended June 30, 2004)

	<u>FISCAL YEAR ENDED JUNE 30, 2005</u>			<u>FISCAL</u>
			<u>VARIANCE</u>	<u>YEAR</u>
	<u>ACTUAL</u>	<u>BUDGET</u>	<u>FAVORABLE</u>	<u>ENDED</u>
			<u>(UNFAVORABLE)</u>	<u>6/30/04</u>
<u>REVENUES</u>				
State Sources				
State Transportation Funds	\$ 49,473	\$ 50,401	\$ (928)	\$ 51,101
TOTAL REVENUES	49,473	50,401	(928)	51,101
<u>EXPENDITURES</u>				
Administration				
Legal and Accounting	1,350			1,630
Contract Services	100			-
Supplies	61			-
Total Administration	1,511	1,511	-	1,630
Routine Maintenance				
Salaries and Wages	2,865			938
Fringe Benefits	219			72
Supplies	1,368			5,928
Equipment Rental	23,888			25,116
Contract Services	-			-
Miscellaneous	-			-
Total Routine Maintenance	28,340	27,691	(649)	32,054
Winter Maintenance				
Salaries and Wages	1,758			1,646
Fringe Benefits	135			126
Equipment Rental	17,995			9,313
Supplies	1,875			1,558
Miscellaneous	-			-
Total Winter Maintenance	21,763	21,763	-	12,643
Capital Outlay	-	-	-	-
TOTAL EXPENDITURES	\$ 51,614	\$ 50,965	\$ (649)	\$ 46,327

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND EQUITY
(CONTINUED)**

ACTUAL AND BUDGET - MAJOR STREET FUND

FISCAL YEAR ENDED JUNE 30, 2005

(With Comparative Totals for Fiscal Year Ended June 30, 2004)

	<u>FISCAL YEAR ENDED JUNE 30, 2005</u>			<u>FISCAL</u>
			<u>VARIANCE</u>	<u>YEAR</u>
	<u>ACTUAL</u>	<u>BUDGET</u>	<u>FAVORABLE</u>	<u>ENDED</u>
			<u>(UNFAVORABLE)</u>	<u>6/30/04</u>
Excess of Revenues Over (Under) Expenditures	\$ (2,141)	\$ (564)	\$ (1,577)	\$ 4,774
Other Financing Sources (Uses)				
Operating Transfers In (Out)	-	-	-	-
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(2,141)	(564)	(1,577)	4,774
FUND BALANCE, JULY 1	<u>9,973</u>			<u>5,199</u>
FUND BALANCE, JUNE 30	<u><u>\$ 7,832</u></u>			<u><u>\$ 9,973</u></u>

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

COMPARATIVE BALANCE SHEET
LOCAL STREET FUND

JUNE 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<u>ASSETS</u>		
Cash and Deposits, Unrestricted	\$ 1,198	\$ 1,336
Accounts Receivable, State	2,124	2308
Due from Other Funds	<u>238</u>	<u>238</u>
TOTAL ASSETS	<u>3,560</u>	<u>3,882</u>
<u>LIABILITIES AND FUND EQUITY</u>		
<u>LIABILITIES</u>		
Accounts Payable	672	924
Due to Other Funds	<u>1,170</u>	<u>18</u>
TOTAL LIABILITIES	1,842	942
<u>FUND EQUITY</u>		
Fund Balance, Reserved	<u>1,718</u>	<u>2,940</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 3,560</u>	<u>\$ 3,882</u>

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND EQUITY
ACTUAL AND BUDGET - LOCAL STREET FUND**

FISCAL YEAR ENDED JUNE 30, 2005
(With Comparative Totals for Fiscal Year Ended June 30, 2004)

	<u>FISCAL YEAR ENDED JUNE 30, 2005</u>			<u>FISCAL YEAR ENDED 6/30/04</u>
	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>	
<u>REVENUES</u>				
State Sources				
State Transportation Funds	\$ 13,124	\$ 13,376	\$ (252)	\$ 13,471
TOTAL REVENUES	13,124	13,376	(252)	13,471
<u>EXPENDITURES</u>				
Administration				
Legal and Accounting	280			580
Contract Services	75			-
Supplies	450			125
Total Administration	805	805	-	705
Routine Maintenance				
Salaries and Wages	2,010			190
Fringe Benefits	153			15
Supplies	715			2,615
Equipment Rental	3,967			5,243
Contract Services	-			-
Miscellaneous	-			-
Total Routine Maintenance	6,845	5,945	(900)	8,063
Winter Maintenance				
Salaries and Wages	960			758
Fringe Benefits	74			58
Equipment Rental	4,412			2,026
Supplies	1,250			1,557
Miscellaneous	-			-
Total Winter Maintenance	6,696	6,696	-	4,399
Capital Outlay	-	-	-	-
TOTAL EXPENDITURES	\$ 14,346	\$ 13,446	\$ (900)	\$ 13,167

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
(CONTINUED)**

ACTUAL AND BUDGET - LOCAL STREET FUND

FISCAL YEAR ENDED JUNE 30, 2005
(With Comparative Totals for Fiscal Year Ended June 30, 2004)

	<u>FISCAL YEAR ENDED JUNE 30, 2005</u>			<u>FISCAL</u>
			<u>VARIANCE</u>	<u>YEAR</u>
	<u>ACTUAL</u>	<u>BUDGET</u>	<u>FAVORABLE</u>	<u>ENDED</u>
			<u>(UNFAVORABLE)</u>	<u>6/30/04</u>
Excess of Revenues Over (Under) Expenditures	\$ (1,222)	\$ (70)	\$ (1,152)	\$ 304
Other Financing Sources (Uses)				
Operating Transfers In (Out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(1,222)	(70)	(1,152)	304
FUND BALANCE, JULY 1	<u>2,940</u>			<u>2,636</u>
FUND BALANCE, JUNE 30	<u><u>\$ 1,718</u></u>			<u><u>\$ 2,940</u></u>

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

**COMPARATIVE BALANCE SHEET
WATER FUND**

JUNE 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<u>ASSETS</u>		
Cash and Deposits, Unrestricted	\$ 41,076	\$ 42,611
Cash and Deposits, Restricted	41,041	34,276
Accounts Receivable		
State Sources	-	-
Other Sources	1,356	1,407
Property, Plant, and Equipment (Net of Depreciation)	<u>1,142,527</u>	<u>1,161,549</u>
TOTAL ASSETS	<u>1,226,000</u>	<u>1,239,843</u>
<u>LIABILITIES AND FUND EQUITY</u>		
<u>LIABILITIES</u>		
Due to Other Funds	1,340	1,340
Notes / Bonds Payable	<u>518,000</u>	<u>530,000</u>
TOTAL LIABILITIES	519,340	531,340
<u>FUND EQUITY</u>		
Retained Earnings	<u>706,660</u>	<u>708,503</u>
TOTAL FUND EQUITY	<u>706,660</u>	<u>708,503</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 1,226,000</u>	<u>\$ 1,239,843</u>

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
WATER FUND**

FISCAL YEAR ENDED JUNE 30, 2005
(With Comparative Totals for Fiscal Year Ended June 30, 2004)

	<u>2005</u>	<u>2004</u>
<u>OPERATING REVENUES</u>		
Charges for Services		
User Fees	\$ 56,243	\$ 54,208
Hydrant Fees	4,800	4,800
Other Revenue	<u>2,317</u>	<u>259</u>
TOTAL OPERATING REVENUES	63,360	59,267
<u>OPERATING EXPENSES</u>		
Administration		
Training / Travel	421	193
Legal and Audit	1,200	1,116
Supplies	702	948
Printing and Publishing	329	602
Contract Services	1,130	-
Other Expenses	<u>5</u>	<u>256</u>
Total Administration	3,787	3,115
Water Lines / Samples		
Salaries and Wages	765	557
Fringe Benefits	59	43
Supplies	1,279	1,321
Equipment Rental	1,183	9,489
Other Expenses	<u>152</u>	<u>593</u>
Total Water Lines / Samples	3,438	12,003
Hydrants		
Salaries and Wages	-	560
Fringe Benefits	-	43
Equipment Rental	-	2,000
Other	<u>1,720</u>	<u>-</u>
Total Hydrants	1,720	2,603
Pumps / Lift Stations		
Salaries and Wages	-	454
Fringe Benefits	-	35
Supplies	61	-
Utilities	3,964	3,325
Equipment Rental	3,066	9,376
Other Expenses	<u>-</u>	<u>-</u>
Total Pumps / Lift Stations	7,091	13,190

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
(CONTINUED)
WATER FUND**

FISCAL YEAR ENDED JUNE 30, 2005
(With Comparative Totals for Fiscal Year Ended June 30, 2004)

<u>OPERATING EXPENSES (continued)</u>	<u>2005</u>	<u>2004</u>
Water Tank		
Supplies	74	-
Equipment Rental	382	369
Other Expenses	65	-
	<hr/>	<hr/>
Total Water Tank	521	369
Meters		
Salaries and Wages	-	675
Fringe Benefits	-	52
Supplies	3,668	1,083
Maintenance and Repairs	-	-
Equipment Rental	-	-
Other Expenses	800	1,000
	<hr/>	<hr/>
Total Meters	4,468	2,810
Other Expenses		
Insurance	4,300	4,150
Depreciation	19,021	19,310
Other Expenses	-	215
	<hr/>	<hr/>
Total Other Expenses	23,321	23,675
TOTAL OPERATING EXPENSES	44,346	57,765
OPERATING INCOME (LOSS)	19,014	1,502
Non-Operating Revenue		
Interest Income	596	478
Non-Operating Expenses		
Interest and Fiscal Charges	(21,453)	(21,977)
NET INCOME (LOSS)	(1,843)	(19,997)
RETAINED EARNINGS, July 01, before restatement	708,503	93,772
Add: Cumulative Effect of a Change in Accounting Principle	-	634,728
RETAINED EARNINGS, June 30, after restatement	<hr/> 708,503	<hr/> 728,500
RETAINED EARNINGS, JUNE 30	<u>\$ 706,660</u>	<u>\$ 708,503</u>

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

**STATEMENT OF CASH FLOWS
WATER FUND**

FISCAL YEAR ENDED JUNE 30, 2005
(With Comparative Totals for Fiscal Year Ended June 30, 2004)

CASH FLOWS FROM (USED BY)	<u>2005</u>	<u>2004</u>
<u>OPERATING ACTIVITIES</u>		
Net cash received from fees and services	\$ 61,095	\$ 59,497
Other operating revenues	2,317	259
Cash payments to employees for services	(824)	(2,246)
Cash payments for goods and services	(24,501)	(36,209)
Other operating expenses	-	-
	<hr/>	<hr/>
NET CASH FROM OPERATING ACTIVITIES	38,087	21,301
<u>NON CAPITAL AND FINANCING ACTIVITIES</u>		
Increase (decrease) in due to other funds	-	63
(Increase) decrease in due from other funds	-	-
Net operating transfers in (out)	-	-
	<hr/>	<hr/>
NET CASH FROM NON CAPITAL AND FINANCING ACTIVITIES	-	63
<u>CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Acquisition and construction of capital assets	-	-
Principal payment on long-term bonds	(12,000)	(12,000)
Interest paid on long-term bonds	(21,453)	(21,977)
Interest and tax expense	-	-
Proceeds from borrowings	-	-
Contributed capital grants	-	-
	<hr/>	<hr/>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(33,453)	(33,977)
<u>INVESTING ACTIVITIES</u>		
Interest Income	596	478
	<hr/>	<hr/>
NET CASH FROM INVESTING ACTIVITIES	596	478
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,230	(12,135)
Cash and Cash Equivalents, Beginning of Year	76,887	89,022
	<hr/>	<hr/>
Cash and Cash Equivalents, End of Year	\$ 82,117	\$ 76,887

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

**STATEMENT OF CASH FLOWS
WATER FUND
(CONTINUED)**

FISCAL YEAR ENDED JUNE 30, 2005
(With Comparative Totals for Fiscal Year Ended June 30, 2004)

	<u>2005</u>	<u>2004</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Operating Income (Loss)	\$ 19,014	\$ 1,502
Adjustment to reconcile operating income to net cash provided by operating activities:		
. Depreciation	19,021	19,310
. Provision for uncollectible accounts	-	-
. Changes in assets and liabilities :		
(Increase) Decrease in accounts receivable	52	489
Increase (Decrease) in accounts payable	-	-
Increase (Decrease) in deferred revenue	-	-
Increase (Decrease) in customer deposits	-	-
NET CASH FROM OPERATING ACTIVITIES	<u><u>\$ 38,087</u></u>	<u><u>\$ 21,301</u></u>

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

**COMPARATIVE BALANCE SHEET
SEWER FUND**

JUNE 30, 2005 and 2004

<u>ASSETS</u>	<u>2005</u>	<u>2004</u>
Cash and Deposits, Unrestricted	\$ 5,650	\$ 3,833
Accounts Receivable		
State Sources	-	-
Other Sources	1,666	1,501
Property, Plant, and Equipment (Net of Depreciation)	<u>117,858</u>	<u>121,336</u>
TOTAL ASSETS	<u>\$ 125,174</u>	<u>\$ 126,670</u>
<u>LIABILITIES AND FUND EQUITY</u>		
<u>LIABILITIES</u>		
Accounts Payable	-	-
Due to Other Funds	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	-	-
<u>FUND EQUITY</u>		
Retained Earnings	<u>125,174</u>	<u>126,670</u>
TOTAL FUND EQUITY	<u>125,174</u>	<u>126,670</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 125,174</u>	<u>\$ 126,670</u>

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
SEWER FUND**

FISCAL YEAR ENDED JUNE 30, 2005
(With Comparative Totals for Fiscal Year Ended June 30, 2004)

	<u>2005</u>	<u>2004</u>
<u>OPERATING REVENUES</u>		
Charges for Services		
User Fees	\$ 38,961	\$ 31,313
Sewer Line Fees	5,400	5,400
Other Revenue	50	55
	<hr/>	<hr/>
TOTAL OPERATING REVENUES	\$ 44,411	\$ 36,768
<u>OPERATING EXPENSES</u>		
Administration		
Supplies	502	402
Legal and Audit	500	388
Other	-	-
Printing and Publishing	134	124
Contract Services	330	30
	<hr/>	<hr/>
Total Administration	1,466	944
Operation of Plant (Lift Stations/Pump)		
Salaries and Wages	-	303
Fringe Benefits	-	23
Supplies	473	956
Insurance	1,200	1,400
Electricity	524	305
Equipment Rental	2,856	1,528
Other	200	42
	<hr/>	<hr/>
Total Operation of Plant	5,253	4,557
Operation of Lines		
Salaries	651	676
Fringe Benefits	50	52
Supplies	409	880
Equipment Rental	4,399	2,585
Other	-	-
	<hr/>	<hr/>
Total Operation of Lines	5,509	4,193
Sewer Treatment		
Contract Services - West Iron County Sewer Authority	30,209	28,388
	<hr/>	<hr/>
Total Sewer Treatment	\$ 30,209	\$ 28,388

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
SEWER FUND
(CONTINUED)**

FISCAL YEAR ENDED JUNE 30, 2005
(With Comparative Totals for Fiscal year ended June 30, 2004)

<u>OPERATING EXPENSES (continued)</u>	<u>2005</u>	<u>2004</u>
Other Expenses		
Depreciation	\$ 3,478	\$ 3,478
Total Other Expenses	3,478	3,478
TOTAL OPERATING EXPENSES	45,915	41,560
OPERATING INCOME (LOSS)	(1,504)	(4,792)
Non-Operating Revenue		
Interest Income	8	5
NET INCOME (LOSS)	(1,496)	(4,787)
RETAINED EARNINGS, July 01, before restatement	126,670	37,765
Add: Cumulative Effect of a Change in Accounting Principles	-	93,692
RETAINED EARNINGS, June 30, after restatement	126,670	131,457
RETAINED EARNINGS, JUNE 30	\$ 125,174	\$ 126,670

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

**STATEMENT OF CASH FLOWS
SEWER FUND**

FISCAL YEAR ENDED JUNE 30, 2005
(With Comparative Totals for Fiscal Year Ended June 30, 2004)

CASH FLOWS FROM (USED BY)	<u>2005</u>	<u>2004</u>
<u>OPERATING ACTIVITIES</u>		
Net cash received from fees and services	\$ 44,196	\$ 36,702
Other operating revenues	50	55
Cash payments to employees for services	(701)	(1,054)
Cash payments for goods and services	(41,736)	(37,028)
Other operating expenses	-	-
	<hr/>	<hr/>
NET CASH FROM OPERATING ACTIVITIES	1,809	(1,325)
<u>NON CAPITAL AND FINANCING ACTIVITIES</u>		
Increase (decrease) in due to other funds	-	-
(Increase) decrease in due from other funds	-	-
Net operating transfers in (out)	-	-
	<hr/>	<hr/>
NET CASH FROM NON CAPITAL AND FINANCING ACTIVITIES	-	-
<u>CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Acquisition and construction of capital assets	-	-
Principal payment on long-term bonds	-	-
Interest paid on long-term bonds	-	-
Interest and tax expense	-	-
Proceeds from borrowings	-	-
Contributed capital grants	-	-
	<hr/>	<hr/>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	-	-
<u>INVESTING ACTIVITIES</u>		
Interest Income	8	5
	<hr/>	<hr/>
NET CASH FROM INVESTING ACTIVITIES	8	5
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,817	(1,320)
Cash and Cash Equivalents, Beginning of Year	3,833	5,153
	<hr/>	<hr/>
Cash and Cash Equivalents, End of Year	\$ 5,650	\$ 3,833

CITY OF GAASTRA

**STATEMENT OF CASH FLOWS
SEWER FUND
(CONTINUED)**

FISCAL YEAR ENDED JUNE 30, 2005
(With Comparative Totals for Fiscal Year Ended June 30, 2004)

	<u>2005</u>	<u>2004</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Operating Income (Loss)	\$ (1,504)	\$ (4,792)
Adjustment to reconcile operating income to net cash provided by operating activities:		
. Depreciation	3,478	3,478
. Provision for uncollectible accounts	-	-
. Changes in assets and liabilities :		
(Increase) Decrease in accounts receivable	(165)	(11)
Increase (Decrease) in accounts payable	-	-
Increase (Decrease) in deferred revenue	-	-
Increase (Decrease) in customer deposits	-	-
NET CASH FROM OPERATING ACTIVITIES	<u><u>\$ 1,809</u></u>	<u><u>\$ (1,325)</u></u>

The notes to the financial statements are an integral part of this report.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

DS Rostagno, CPA, P.C.

***101 West Maple Street, Iron River, MI 49935
Tel (906) 265-1040 Fax (906) 265-1042***

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Mayor and Members of the City Council
City of Gaastra
PO Box 218
Gaastra, Michigan 49927

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **City of Gaastra** as of and for the year ended June 30, 2005, which collectively comprise the **City of Gaastra's** basic financial statements, and have issued our report thereon dated October 05, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **City of Gaastra's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no such matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **City of Gaastra's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

Compliance and Other Matters (Continued)

However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the management of the **City of Gaastra**, Gaastra, Michigan in a separate letter dated October 05, 2005.

This report is intended solely for the information and use of the audit committee, management, the Board, and federal awarding agencies and pass-through entities, and it is not intended to be, and should not be, used by anyone other than these specified parties.



Dianne S. Rostagno
DS ROSTAGNO, CPA, P.C.

October 05, 2005

DS Rostagno, CPA, P.C.

***101 West Maple Street, Iron River, MI 49935
Tel (906) 265-1040 Fax (906) 265-1042***

Honorable Mayor and Members of the City Council
City of Gaastra
Gaastra, MI 49927

In planning and performing the audit of the financial statements of the **City of Gaastra**, we considered the City's internal control structure to plan the auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. This letter does not affect our report dated October 05, 2005 on the financial statements of the **City of Gaastra**. We will review the status of these comments during our next audit engagement. Our comments and recommendations, which have been discussed with appropriate City officials, are intended to improve the internal control structure or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience or to assist you in implementing the recommendations. Our comments are summarized as follows:

BUDGETARY

Problem

During the year ended June 30, 2005, the City incurred several expenditures which were in excess of amounts appropriated.

Recommendation

In the future, closer monitoring should be done in regards to budgetary appropriations and expenditures.

ELECTED AND APPOINTED OFFICIALS

Problem

During the prior audit, City officials were informed that elected and appointed officials are defined by statute as employees of the public entity they serve.

Because they are considered employees, they are subject to social security and Medicare withholding.

The City's elected and appointed officials were not currently being treated as employees for payroll purposes.

ELECTED AND APPOINTED OFFICIALS (Continued)

Recommendation

It was recommended that compensation for all elected and appointed officials be reported as payroll from which the City must withhold the mandatory social security and Medicare.

Resolution

This has been satisfactorily resolved.

The above recommendations have been discussed with City officials.

It has been our pleasure working with the City Officials, and we wish to express our appreciation for their cooperation and assistance during the audit engagement.

Yours very truly,



Dianne S. Rostagno
DS ROSTAGNO, CPA, P.C.

October 05, 2005

DS Rostagno, CPA, P.C.

101 West Maple Street, Iron River, MI 49935

Tel (906) 265-1040 Fax (906) 265-1042

October 05, 2005

Honorable Mayor and Members of the City Council
City of Gaastra
Gaastra, Michigan 49927

We have audited the financial statements of the **City of Gaastra** for the year ended June 30, 2005, and have issued our report thereon dated October 05, 2005. Professional standards require that we provide you with the following information related to the audit:

Our Responsibility under Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated December 13, 2002, our responsibility, as described by professional standards, is to plan and perform the audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

As part of the audit, we considered the internal control of the **City of Gaastra**. Such considerations were solely for the purpose of determining the audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the **City of Gaastra's** compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the **City of Gaastra** are described in the Note to the financial statements. There were no new accounting policies adopted and the application of existing policies was not changed during this year. We noted no transactions entered into by the **City of Gaastra** during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

There were no sensitive estimates affecting the financial statements as presented.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the **City of Gaastra** that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. We proposed no audit adjustments that could, in our judgement, either individually or in the aggregate, have a significant effect on the **City of Gaastra's** financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of the audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

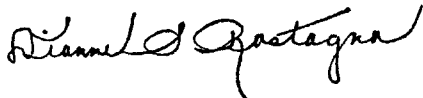
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Gaastra's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing the audit.

This information is intended solely for the use of the Board and management of the City of Gaastra and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Dianne S. Rostagno".

Dianne S. Rostagno
DS ROSTAGNO, CPA, P.C.